

97-84092-22

Rea, Samuel

Statement of
Mr. Samuel Rea

[S.I.]

1921

97-84092-22

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29 p. 23 cm.

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STATEMENT OF MR. SAMUEL REA, PRES-
IDENT OF THE PENNSYLVANIA RAIL-
ROAD COMPANY, BEFORE THE SENATE
COMMITTEE ON INTERSTATE COM-
MERCE.

MAY 31st, 1921.

Mr. Chairman and Gentlemen of the Committee, with your permission I desire to make the following statement. You have had very fully explained to you statements of the revenues and expenses of the railroads for a series of years, including the various increases and decreases. I endorse the testimony already given as the general experience of the Pennsylvania System, which carries about 12 per cent. of the ton miles and 15 per cent. of the passenger miles of the Country. I feel, however, that this inquiry would not be complete without drawing your attention to some important questions which directly affect the present condition of the railroads and their immediate outlook, especially in this period of a very severe business depression. Your Committee very properly examined the results of recent years, for it is clear that if the net returns of the carriers had been ample during the past decade they would now be able to go

through the existing depression without serious detriment to their own credit and to the Country.

Inadequate Returns for Past Years.

The property investment returns of the carriers of the United States are indices to the situation, and these returns have been inadequate. They are as follows:

| | All Railroads in United States |
|------|-----------------------------------|
| 1913 | 5.01% |
| 1914 | 4.12% |
| 1915 | 4.17% |
| 1916 | 6.17% |
| 1917 | 5.31% |
| 1918 | 3.60% |
| 1919 | 2.64% |
| 1920 | 0.33% |

In 1916 the railroads enjoyed heavy traffic and were operated practically to capacity, and, therefore, with the greatest economy, because material and labor costs had not then reached War levels. The returns earned from operations for the years 1918 to 1920 cannot be taken as indicative, for the reason that the traffic rates were not adjusted to meet the current costs. In those years the railroad companies had the benefit of the rental under the Federal Control contract, and the Guaranty

under the Transportation Act, provided they realize such rental and guaranty by actual payment. So far there are serious unsettled questions as to actual settlements for both periods. Unless a fair interpretation is given to the Federal Control and Transportation Acts, and the Federal Control contract, and of the conditions under which the railroads were taken over by the President, the amounts of Federal Control and Guaranty Period compensation will prove theories and not actualities, because they will not be paid to the railroads, and the cost either in whole or in part of restoring the properties and the disorganized organizations will be placed on the corporations, which would be an injustice and would endanger their financial condition. These questions are more fully referred to hereafter.

Present General Condition of the Railroads.

In many particulars the present position of the Railroad Companies and their lack of traffic, is due to world-wide conditions, which prevail also in the other industries as well as in the railroad business. But the difference between these industries and the railroads in meeting those conditions is that the industries had the advantage of sharing in the high prices and profits of the War period, and at present the industries have the power to fix their prices and wages, and to shut down their

plant if the business, or profits, do not warrant their operation. The railroads, however, were in the War period restricted to the returns of the test period, and even under the Transportation Act are not allowed to retain the profits made under reasonable rates if in excess of 6 per cent. on their property investment—if they happen to be so fortunate as to obtain that result—but are required by law to divide the so-called excess with the Government, and hence are largely prevented from fortifying themselves to the fullest extent to meet depressions. Although the railroads were granted higher rates effective August 26th, 1920, yet since that date they have proven to be insufficient to cover their costs, and yield a fair return. Though many railroads are facing financial difficulties, they cannot promptly reduce wages nor change the wasteful working conditions, to the level of the going wages and working conditions of the industries, through the territory they serve. That must be done by the Labor Board. By Federal Law the rates were to be fixed to produce a fair return, yet the railroads are apparently unable to insist upon compliance with that law so long as supply and demand restrict production and consumption, and reduce the volume of traffic.

The railroads, therefore, must get the requisite financial results to allow them to exist, by post-

poning all capital expenditures, by curtailing employment, by shutting down all possible activities on the road and in the shops and offices, by stopping the purchase and use of supplies, by postponing for the present, even though they will cost more later, all maintenance or replacement expenditures except those requisite for safety.

Railroads Must Retain Confidence of Investors.

Railroad Managements, while trying to operate and maintain good service under these conditions, are striving to fulfill their responsibilities to the investors who furnished the moneys to provide the transportation properties and service. These investors and owners did not receive any higher returns to meet War costs as did the railroad employes through higher wages, and the farms and industries through higher prices and greater profits. Railroads and the Nation must still rely on the investors to continue their railroad investment, and furnish additional capital in the future—provided the Country can retain the railroad investors' confidence through equitable treatment. They must have some definite assurance that, although they cannot obtain one penny out of railroad revenues until the railroads pay (1) wages, (2) taxes, and (3) materials and all other ex-

penses of operation, yet the railroads are still backed by law and public opinion, so that the railroad investment will be preserved under railroad regulation and a fair return eventually paid. These investors and owners must further believe that the State authorities (although many have been or are still resisting rate increases) will be fair, and the employes as a whole will be reasonable in their demands, and will eventually have the interest of the Country and owners at heart, although their leaders may be unwise in insisting on a continuation of high wages, and the wasteful National Agreements and working conditions in this period of War adjustment and depression, when such a course is restricting business and is forcing unemployment.

Post-War Adjustments Require Sacrifices.

Neither individuals, railroad corporations nor Governments can escape paying the cost of post-War adjustment. The optimism and confidence I have in the justness of public opinion, and equitable treatment of the railroads by the Federal and State Governments, and in the eventual common sense and loyalty of railroad employes, do not change my belief that the situation must be adjusted, and that adjustment cannot be effected without a sacrifice in which all must bear a part. The sooner we realize this, the quicker will normal conditions be reached.

Results Under Transportation Act.

The Transportation Act became effective March 1st, 1920, and was designed as a constructive measure to strengthen the financial position of the railroads and enable them to continue a high standard transportation service. Rates were to be made for two years from that date to produce a property investment return to the railroads of the Country as a whole, or in groups, of $5\frac{1}{2}$ per cent. or 6 per cent. on the valuation of the property as determined by the Interstate Commerce Commission. The Act also provided that wages could not be reduced prior to September 1st, 1920, and also authorized guaranteed payments to the carriers for the use of their property during the same six months. In other words, the law specifically recognized the six months period as one in which the financial and physical conditions and working organizations of the carriers would have to undergo adjustments. It is, therefore, clear that the operating returns for the year 1920 could scarcely be expected to produce a return at the rate even of $5\frac{1}{2}$ per cent. on the valuation of the carriers, and that was the reason for fixing a guaranteed return for six months. The obstacles to producing even the $5\frac{1}{2}$ per cent. return were—that wages were increased by action of the Labor Board effective May 1st, 1920, and the

War working conditions were continued in effect; and the rates were not increased until August 26th, 1920, and many of them have not yet been increased due to State laws or State Commissions. Further, there was the unauthorized strike of April, 1920, and higher costs for labor and materials existed through the greater part of the year. Altogether it was a period of readjustment from War conditions.

But from September 1, 1920, when rates as well as wages had been increased there should be a better basis for judging the results of the Transportation Act if traffic had continued normal.

The return earned by all the railroads of the Country for the six months ended February 28th, 1921, was only at the rate of about $2\frac{1}{2}$ per cent. per annum, on the value of the property devoted to public use, against a mandatory minimum return of $5\frac{1}{2}$ per cent., but the Transportation Act alone can scarcely be blamed for the deficiencies of return which reflect a world-wide business depression—for one-half of this period very severe. It will be found by experience that, compared with War conditions, when we supplied all the World, our production is materially in excess of average consumption, so that production, prices and consumption all need adjustment, and the railroads are bearing part

of the costly loss of traffic incidental to these conditions.

Serious Condition of the Railroads.

Admitting that the Transportation Act cannot be blamed for the deficiencies in railroad returns, and for the weak financial condition in which the railroads have been placed, yet the facts cannot be overlooked (1) that in the six months period ended February, 1921, when the full results of both the increased wages and the increased rates were in effect, the return earned by the railroads on the property investment, as determined by the Interstate Commerce Commission, was at the rate of only about $2\frac{1}{2}$ per cent. per annum, and (2) that the railroads failed by \$313,565,368 in these six months to earn the return at the rate of 6 per cent. per annum authorized by the Transportation Act. (3) The railroads are not earning fixed charges and fully maintaining their properties. (4) They are short of working capital and are still in a business depression—one of the worst in their experience. While we hope that the bottom has been reached, I would point out that there can be no resumption of railroad prosperity until there has been an increase in the movement of coal, coke, iron, steel and other building construction materials and heavy prod-

ucts. The mines, industries and farms of the Country must rise and fall together; one cannot be made prosperous or continue prosperous at the expense of another. Manifestly in view of these conditions as to operating expenses, and the necessity to pay taxes, fixed charges and sustain the credit of the railroads, it became an imperative necessity to reduce labor costs and enforce the serious retrenchments to which I have referred.

Therefore, the real railroad problem at present is to put the carriers in a position to meet their obligations, and support their investment during the period of depression. To save many of them from bankruptcy, a prompt and adequate reduction in wages is essential, as well as the abolition of the wasteful National Agreements, and the substitution therefor of agreements with the employes that will promote greater efficiency and provide reasonable working conditions, so that the wages and working conditions will correspond generally to present conditions. It is not a question of any controversy with employes or labor unions, and it originates from no desire to see that railroad men are not paid adequate wages, because that would be hurtful to the railroad business and cause the better men to go into other industries, but it is clearly a condition where the dollars earned are not sufficient to pay the wages,

maintain the property, and also enable the Companies to meet their obligations.

The property investment return for the calendar year 1916 enabled the railroads to exist and meet their obligations. It showed a return of 6.17 per cent. and a large volume of traffic was carried with great efficiency and economy, because the War levels of wages and prices had not been reached. In that year out of every dollar of revenue earned 40.8 cents were paid to labor, but in 1920 59.9 cents out of every dollar were so paid. In 1916, after paying for materials, taxes and rents for equipment and joint facilities, 28.9 cents were left out of every dollar earned to pay fixed charges and a return upon the investment, but in 1920 only one cent was left. Therefore the fixed compensation for the first eight months of the year saved most of the roads from bankruptcy. Taking the last quarter of 1920, when rates as well as wages had been adjusted, it required 55.1 cents out of every dollar of revenue to meet the payrolls. The total payroll compensation rose from \$1,468,576,000 in 1916 to \$3,698,216,000 in 1920, and the average annual compensation per employe rose from \$892 in 1916 to \$1820 in 1920. If the Labor Board Award had been effective from January 1st, 1920, instead of May 1st, 1920, the average annual compensation

per employe would have been \$1926, an increase over 1916 of 115.92 per cent.

General Rate Reductions Impossible.

Under the conditions outlined it is clear that no horizontal or general reduction in rates can be granted, until such time as the net railway operating income of the railroads shows a very substantial improvement over the results now obtaining, which are at present insufficient to meet their fixed charges and usual dividends, and also until the railroads have restored any inadequacy of maintenance. Otherwise the railroads, having no margin of past or present profits, the standard of their property and equipment will be so undermined that it will take many years to recover. Further, until the foregoing economies are effected, a general rate reduction would not be in the public interest, as it would force the railroads to produce and sell transportation for less than cost, and it is extremely doubtful if it would stimulate production, or increase purchases, of goods by the public. In addition, so long as the railroads cannot earn a fair return, and are much below the $5\frac{1}{2}$ per cent. return on the value of their property as contemplated by the Transportation Act, and have no cash surplus from the previous years, there must be a deficiency in transportation facilities, equip-

ment and service, and the cost of that deficiency to the public is much greater than the continuation of transportation rates that give some fair measure of profits. Under such conditions it is evident that no steps should be left untaken which will strengthen the financial position of the railroads, as it is evident that while rates should not be reduced, it is equally evident that they cannot be increased under existing conditions. Therefore, I feel sure from the inquiries directly made in this hearing that this Committee will be interested in any suggestions that will ameliorate the financial position of the Railroads, especially such measures as may be carried out without placing a further burden on general business.

Funding of Capital Expenditures During Federal Control.

There has never been a doubt in my mind of the intention of Congress to authorize prompt and fair compensation settlements with the railroads for the Federal Control Period, and for the Guaranty Period. The Government assumed the possession, use and control of the railroads, and used them as if it owned them, during the War period. It also made large capital expenditures thereon, amounting to about \$1,200,000,000. to win the War, and at a time when the cost of labor and materials was the highest. These

capital expenditures must be assumed and paid by the railroads, with interest. Almost \$400,000,000, of the above capital expenditure was for equipment allocated to the railroads, and was funded by the Government through the National Equipment Trusts, negotiated with each of the railroads, which require the railroads to pay back to the Government these capital expenditures for equipment during a period of fifteen years, with interest at 6 per cent. per annum. This left about \$800,000,000 of capital expenditures, chiefly for road and facilities, to be funded by the carriers. It will be recalled that under the terms of the Transportation Act discretion was conferred upon the President to fund all these expenditures, but the right was conferred upon him with certain limitations to offset against such expenditures, amounts due by the Railroad Administration to the carriers on other accounts for the Federal Control period, and this right will, by an understanding with individual carriers and under the terms of the Act, be exercised by the Administration. However, under the different conditions that now exist, these arrangements should be altered if the carriers cannot meet them, as it is impossible for the railroads to sell securities and pay off all these capital expenditures at present, and they have a shortage of working capital

and practically no surplus earnings. Unless such funding is required a considerable part of the capital expenditures for additions and betterments made during Federal Control will in effect be paid for through the application of what may be regarded as current funds due to the railroad companies, now urgently needed by them for current purposes.

In view of the present situation of the railroad companies, and having regard to the emergency which now exists, I suggest that the President should, in the public interest, exercise his discretion so as to permit the funding of the entire expenditures of the character referred to which were made during the period of Federal Control. Expenditures for additions and betterments are capital expenditures and they ought to be treated as such in the final disposition of the accounts covering the period of Federal Control, and should not consequently be taken care of even in part by the application thereto of current funds, or by withholding any part of the amounts due to the carriers for the Federal Control period. The railroads themselves would have been obligated to raise the capital in advance of making such addition and betterment expenditures, or else the work would not have been done, and the Government—without loss

to itself and receiving a good interest return—should be willing to fund these expenditures, instead of withholding the cash that the railroads need badly to meet current requirements, and help them to surmount this difficult period. I, therefore, respectfully suggest, unless the President will so exercise that discretion, your consideration of an amendment of the Transportation Act which will direct the funding of all expenditures for additions and betterments made during the period of Federal Control.

In making this suggestion I am following the provisions of Senate Bill 3288, of the 66th Congress, first session, which was introduced by Senator Cummins in October, 1919, except that I suggest 15 years instead of the 10 years mentioned therein. Unfortunately this section was amended in conference. Experience has since justified the view held at that time by the chairman and members of this Committee. I quote Section 2, first paragraph, as follows: "The indebtedness of any carrier corporation to the United States, existing at the time Federal control is relinquished, incurred for additions and betterments made during Federal control, or for advances made by the United States or incurred to pay off any carrier's indebtedness properly chargeable to capital ac-

count, shall, at the request of the carrier, be extended for a period of ten years, or a shorter period, at the option of the carrier, with interest at the rate of 6 per centum per annum payable semi-annually on the first days of January and July of each year. Said indebtedness shall be evidenced, if practicable, by the first mortgage bonds of the carrier; but, if this is impracticable, then in such form as shall be prescribed by the President."

Federal Control Act and Contract Differences should be Decided.

I also suggest, as further relief, a change in the Act, equally necessary and equitable, to both the Government and the railroads, *i. e.*, an amendment which will assure the observance of the recommendations made by the President at the time he took the railroads over, viz: that the railway properties will be maintained during the period of Federal Control in as good repair and as complete equipment as when taken over by the Government, and further that investors in railway securities might rest assured that their rights and interests would be as scrupulously looked after by the Government as they could be by the directors of the several railway systems, which in

effect means a full observance of the similar provisions of the Federal Control Act. The seriousness of that situation is indicated in the recent statement by the Director General, as of May 1st, 1921, of the condition of the United States Railroad Administration in the matter of liquidating questions in dispute arising out of, or incident to, Federal Control, *which statement I submit herewith*, and which is, I think, of sufficient importance to form part of the records of this hearing. In regard to differences of opinion respecting maintenance of the railroads he states:

"The Congress, following this recommendation, in the Federal Control Act provided that the standard contract should contain such provisions 'as may be requisite in order that the property of each carrier may be returned to it in substantially as good repair and in substantially as complete equipment as it was in at the beginning of Federal Control.'

"Most of the roads entered into standard contracts, the terms of which attempt to provide rules by which the questions of upkeep shall be determined. It is differences of opinion as to the construction of these rules from which arise most of the controversies between the Railroad Administration and the carriers in carrying out final settlements.

"In conclusion, I want to suggest and empha-

size that in reaching final settlements the disputes to be adjusted between the carriers and the Administration are not merely matters of accounting, to be settled by the application of fixed and definite rules that may be followed by accountants or statisticians, but every settlement presents serious practical questions, many of them new and novel, that can only be fairly determined by men on both sides who have had actual and extensive railroad experience in the field."

The attitude of the Director General is not complained of, and he aptly describes the matter when he says: "This adjustment and straightening out of this wonderful adventure on the part of the Government presents for solution novel, complex and important questions wholly without precedent."

But we may well ask what is to be the financial condition of the railroads while final conclusions are being reached.

The Committee may recall, in this connection, the extensive negotiations over the standard contract, and the differences of opinion which have since arisen, to which the Director General refers in his statement, as to the meaning to be placed upon the words "cost of labor" in the maintenance provisions of this contract. It has been the view of the Railroad Administration, long before the present Director General was appointed, that

the pledge of the President will have been redeemed, and the Federal Control Act and contract observed, if it is shown that, having regard to the reduced purchasing price of the dollar in the Federal Control period, relatively as many dollars were spent upon the property by the Director General as were spent by the corporations in the so-called Test period. The railroads believe that it can be shown that the same amount of physical reparation was not produced by the dollars expended in the Federal Control period as in the Test period, and therefore the pledge of the President and of Congress had not been made good. The Railroad Administration, however, holds the view, if I correctly understand their position, that the test of the performance of the pledge is the number of dollars spent for labor, taken in conjunction, of course, with the material applied, in the two periods for maintenance purposes. The carriers contend that the "cost of labor" is the cost to do the same amount of physical maintenance or reparation in the Federal Control period as compared with the cost to do the same work in the test period. For instance, the railroads contend that if it cost thirty cents to place a tie in the track in the Test period and took an hour's time, the carrier is entitled to have a tie placed in the Federal Control period whether it takes two or more hours, and that the full cost to place the tie shall be the measure, and not the

time involved in placing it in the Test period. Under the Railroad Administration's view the carriers should be allowed one hour at the present rate of wages under their interpretation of the Act and contract, if I correctly understand their position. To illustrate further what is meant by the "cost of labor" versus the "price of labor," two requirements of the National Agreements cost the railroads an amount estimated at \$30,000,000 in 1920, representing time paid for and not worked, and is included in the "cost of labor" and is not included in the "price of labor." Those two rules are part of the National Agreement with the shop Crafts, (which agreements did not exist during the Test Period) and require that a man shall be paid one hour each week for checking into work and checking out from work; and be allowed twenty minutes for meals, where eight hours of continuous work is required.

The annual average of cross tie renewals for roads covering 93% of total maintenance of way expenses, *excluding labor*, were:

| | | |
|---------------|---------------------|--------------|
| Test Period.. | 83,885,000 ties.... | \$58,135,000 |
| 1918 | 69,327,000 " | 62,886,000 |
| 1919 | 73,398,000 " | 84,156,000 |
| 1920 | 77,015,000 " | 107,772,000 |

These cross tie renewals in 1918 and 1919 were 25,000,000 ties below the Test Period average, sufficient to lay nearly 9,000 miles of track.

Rail renewals during the two years of Federal Control were short 440,230 tons, or eleven per cent. below the Test period. There was also a shortage of 1,816,100 cubic yards of stone, gravel and other ballast materials. While the Railroads will no doubt be conceded this shortage of materials, yet unless the full labor cost of the installation of such materials is also conceded, there will be a consequent loss which would be passed to the railroad companies by a misinterpretation of the contract, and a failure to redeem the President's promise and comply with the Act of Congress, as to the return of these properties in as good condition as when taken over.

It cannot be too strongly pointed out that the view of the Director General results in theoretical maintenance only—that is, in materials not applied to or in place on the property—while both the President and the Act of Congress promised and required that the property should be actually and not theoretically maintained.

If, however, the contract can be said to justify the view of the Railroad Administration, notwithstanding it specifically requires that the cost of labor must be dealt with, and also requires physical reparation, and not merely a dollar test covering only the price of labor, then in the interest of right and justice Congress should clarify the Federal Control con-

tract provisions as to maintenance, which the Director General points out as the chief cause for difference of opinion between the Railroad Administration and the carriers, and which he intimates can only be finally determined by the Supreme Court. This, I feel, could, if necessary, be covered by an amendment to the Transportation Act to the effect that the extent of the physical reparation should be the measure of the performance of the President's pledge, but even here I am advised that no amendment is required, as the President's authority is already ample under the Transportation Act.

Further, I suggest this because, based on the Director General's report, as to settlements, it may take about 3½ years more to review all claims, and if appeal must be made to the Supreme Court to decide the meaning of the Federal Control Act and Contract as they may apply to the different conditions and questions on each road, it may take many more years. The essence of that situation is that many of the roads will be forced to accept much less than they are entitled to, and accept the burden, hoping to work it off in succeeding years. In making this suggestion I am at the serious disadvantage of not knowing the actual condition of the claims made by the railroads, both those having Federal Control contracts and those not having Federal

Control contracts; nor the physical reparation in ties, rails, ballast, stations, shops, and other structures, or in locomotives, passenger cars and freight cars, which they will claim as due to them; but the Director General's figures, based on the claims already presented, state it is probable that the under-maintenance claims will run between \$700,000,000. and \$800,000,000. He further states that of the claims of all kinds already presented, covering 44 roads out of about 445 roads and systems with standard contracts, those allowed in final settlement aggregate 43.68 per cent. of the amount claimed. I am convinced from talks with other railroad executives that this question of under-maintenance is a live one, combined with the failure to fund all capital expenditures, and the delay in settlements to be made for the Guaranty Period to which I will refer, is at the root of the weakness of railroad credit because all of these questions deprive the railroads of the ready cash to meet current requirements and to place their property in efficient condition. The main point to my mind is that the situation will not be met merely by legal argument but that substantial justice should be done to the railroads through the fulfillment of the President's recommendations and the Act of Congress by ensuring the return to the owners of their property and equipment in substantially as good condition

as when they were taken over by the Government, and as that has not been done they should be properly compensated. Unless this is done, then I want to make it clear that, for the Federal Control Period and the Guaranty Period, they will not receive what was promised them by the President and Congress. I am asking for a fulfillment of the promises, and nothing more.

Settlements for the Guaranty Period.

These suggestions, of course, apply to both the Federal Control and Guaranty Periods. The Transportation Act seemed to give the broadest power to the Interstate Commerce Commission to make settlements for the Guaranty Period, and also to determine the expenses. Unfortunately this Section of the Act, in authorizing compensation to the railroads and in dealing with maintenance, made reference to the terms of the Federal Control contract, and leads us into practically the same difficulties of interpretation as in the Federal Control settlements, and that while the Railroad Administration hesitates to settle, the Interstate Commerce Commission may be discouraged in using the broader powers of settlement for the Guaranty Period conferred on it by the Transportation Act. I hope I am mistaken in this view as to the Guaranty Period settlement. The final result means that the

conditions prevailing during the Guaranty Period are not to be fully taken into account. In addition to the maintenance expenses, other expenses should be viewed with a full consideration of the conditions existing in the Guaranty period. I have reference particularly to the extra items of cost such as the unauthorized strike of April, 1920, which affected railroad traffic for several months before the congestion eased off; the return of large numbers of cars scattered all through the Country to the home railroads; and other causes of increased costs in that period which should be recognized. Despite all these conditions the public service rendered showed improvement and greater efficiency, and, while the business lasted, each month was showing a betterment of operating conditions compared with the preceding period of Federal Control.

Here was a transition period from War to peace designedly selected by Congress to assist the railroads in adjusting their conditions at the end of Federal Control, and in re-establishing their working organizations and credit on a peace basis, and yet the net result of the Act, if interpreted as suggested, will not enable the railroads to secure the result intended to be realized. Instead the result will be that the railroads shall not be fully compensated for their expenses during this period, but that when they receive the

guaranty for six months, as established by what I regard as a misconception of the Transportation Act, they must at their own cost pay a portion of the expenses of operation and maintenance during the Guaranty Period, because the expenses are out of line when an attempt is made to adjust such expenses with one-half of the average annual expenses of the Test Period. If such an interpretation is allowed to stand it will be seen that the intention of Congress would be negated, and the benefits that it intended to confer would not be realized, and that provisions of the Act by which all surplus operating earnings were to be turned over to the Government for the Guaranty Period, and the deficits were to be paid by the Government for that period, would be rendered null and void. As this is so far from the intention of those who insisted upon the passage of the Transportation Act, and its consequences are so widespread to the Country at large and to the railroads themselves, then, if the Interstate Commerce Commission cannot so exercise the discretion given them by what I regard as the true intention of that Act, the passage of an amendment which would enable the real purpose of the Transportation Act to be made effective seems imperatively necessary and just. It is estimated that this would repay to the railroads several hundreds of millions of money

actually expended for operating and maintenance purposes in the Guaranty Period, which they believe are at present not being paid because of a clear misinterpretation of the law.

These measures of relief would be carried out with marked benefit in strengthening the credit and financial condition of the railroads. To continue the present situation under existing conditions when their transportation returns are insufficient, is not merely exhausting their credit, but deprives them of cash essential to meet their requirements, and is making them a serious obstacle to the resumption of normal business and prosperity.

CONCLUSION.

The benefit of a fair and prompt interpretation of the President's proclamation, the Federal Control Act and Contract, and the Transportation Act is very evident.

In offering these various suggestions of relief to the railroads, relative to the funding of the War capital expenditures and the removal of differences of opinion that prevent prompt and fair settlements for the Federal Control and Guaranty periods, I do not think that I have suggested anything which is not in the public interest, and which ought not to be willingly acquiesced in. If the present conditions had been anticipated I cannot doubt that Congress would have dealt

even more liberally with the railroad companies than has been done in the Transportation Act. I feel that to fail to deal with these suggestions, under present conditions, is to jeopardize the credit of many of the railroads, that might be avoided by equitable and prompt settlement for the Federal Control and Guaranty periods which would tide them over until business has been restored to normal conditions. I would be negligent of what I conceive to be to the real interest of the Country in this difficult transportation situation, and to the investors in the railroads, if I did not bring this situation, without criticism of any Government officer or Department but because of real force of existing conditions, to your attention.

MSH 22377

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